Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. Docket No. 06-61

Respondent: Joseph S. Williams
Title: Specialist Financial Planning & Analysis – Service Costs

REQUEST: CLEC Coalition, Set #2

DATED: August 23, 2006

ITEM: CLEC 2-1

Referring to the attachment in Verizon's response to CLEC 1-2, please describe in detail the process Verizon used to determine separate avoided cost discounts for Business and Consumer class customers in the following states and dockets:

a. Maine Resale Doc. No. 96-510;

b. New Hampshire Resale Doc. No. 96-252;

c. Rhode Island Avoided Cost Study Doc No. 25 18; and

d. Vermont Resale Doc. No. 5906

Verizon's response should include a description of how retail revenue and avoided costs were segregated between Business and Consumer customer classes.

REPLY:

Verizon objects to this Information Request to the extent it requests information outside of Massachusetts on the grounds that such information is not relevant to this proceeding and is beyond the jurisdiction of the Department. Verizon also objects to this Information Request to the extent it requests information from cost studies performed almost 10 years ago and for which information is not relevant today and is not readily accessible. Without waiving its objections and in an effort to be responsive Verizon states that the general methodology it believes to have been followed in Maine, New Hampshire and Vermont, was the methodology contained in documentation Verizon was able to locate for the state of Rhode Island.

REPLY: CLEC 2-1 (Cont'd.)

The direct testimony of Margaret Mary Degnan in Rhode Island PUC Docket 2518 filed August 21, 1998 describes the methodology used to calculate separate avoided cost discounts for Residence and Business customers.

In her testimony, Ms. Degnan stated: "For the majority of the direct avoided expenses in accounts 6611, 6612 and 6623, the function code detail provides sufficient information to directly assign the avoided expenses to residence or business. For example, function code 2E50 is Billing Inquiry – Residence, while function code 2850 is Billing Inquiry – Business. The Call Completion portion of the Operator Service shortfall is allocated between residence and business based on the split of call completion minutes. The Directory Assistance portion is based on the split of directory assistance calls.

For those remaining expenses where the activities performed within the function code or account support both the residence and business markets, the expenses were allocated between residence and business based on the relative percentage of access lines in service.

For revenues, the detail within each of the accounts is sufficient to directly assign the dollars to residence and business. Once all expenses and revenues are assigned, the resale discount can be calculated for residence and business, as well as a total composite discount."

Verizon believes this is generally the methodology the New Hampshire Arbitrator adopted in DE 96-252 to assign the overall discount to residence and business and that both Maine and Vermont adopted the New Hampshire Arbitration decisions on the avoided cost methodology except using Maine and Vermont specific inputs for each state respectively.

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ITEM: CLEC 2-2 Please describe how Verizon would calculate separate avoided cost discounts for its Business and Consumer classes of customers using its current avoided cost discount methodology. This description should include a discussion of how retail revenue and avoided costs would be segregated between Business and Consumer customer classes.

REPLY: Verizon does not believe separate business and residence avoided cost discounts are required or consistent with the Department's policy established for the resale discount.

In the Phase II Arbitration Order, (D.P.U. 96-73/74, 96-75, 96-80/81, 96-83, 96-94 -- Phase 2, pp.33-34), the Department directed NYNEX to calculate a uniform discount rate for business and residence services. In its Order the Department stated:

"The FCC has addressed this issue, as follows:
We neither prohibit nor require the use of a single, uniform discount rate for all of an incumbent LEC's services. We recognize that a uniform rate is simple to apply, and avoids the need to allocate avoided costs among services. Therefore, our default wholesale discount is to be applied uniformly. On the other hand, we also agree with parties who observe that avoided costs may, in fact, vary among services. Accordingly, we allow a state to approve nonuniform wholesale discount rates, as long as those rates are set on the basis of an avoided cost study that includes a demonstration of the percentage of avoided costs that is attributable to each service or group of services. [Local Competition Order at ¶ 916.]"

REPLY: CLEC 2-2 (Cont'd.)

The Department's Phase 2 Order also states:

"In this proceeding, the only difference in avoided costs among services that has been demonstrated is the difference between those services which include O&DA versus those which do not include O&DA. MCI is correct that the allocation of avoided costs by lines, although having an intuitive appeal, has not been demonstrated to be a correct allocation. The proposal by Sprint has likewise not been demonstrated to be appropriate. Accordingly, in light of the FCC order, we direct NYNEX to recalculate its study using a uniform discount rate for business and residential services, in one case for services including O&DA and in a second case for services excluding O&DA."

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ITEM: CLEC 2-3 Referring to Verizon's response to CLEC 1-5, Attachment II, please explain why the following DEM assumptions were used to calculate the retail percentage applied to Billing Operations costs to determine the avoided portion of Billing Operations costs.

a. Why were 2001 DEMs used instead of 2005?

b. Why did Verizon multiply six months of actual DEM data by a factor of 2 to estimate 12 months of DEM data instead of using 12 months of actual data?

REPLY:

a. Dial Equipment Minutes (DEMs) were gathered to comply with the FCC's separation requirements. In 2001 the FCC revised certain separation requirements in order to stabilize and simplify the separation process. In the FCC's Report and Order adopted May 11, 2001, CC Docket No. 80-286, the DEM factors were frozen at 2001 levels. The 2001 DEM data provided in CLEC Attachment II are the most current available.

b. Some Verizon jurisdictions continued to collect DEM data for the remainder of 2001 and others did not. In CLEC 1-5 Attachment II, some jurisdictions did have twelve months of actual data and others used six months of actual data and multiplied by two in order to estimate twelve months of data.

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ITEM: CLEC 2-4 Referring to Verizon's response to CLEC 1-5, Attachment I, please identify the sub-accounts that the expenses listed on lines 9-14 are recorded in.

REPLY: Verizon objects to this Data Request as it is posed in a manner inconsistent with the presentation of the data, and is therefore unanswerable as stated. Subject to the foregoing, without waiving its objection, Verizon does not track which sub-accounts the expenses listed on lines 7-14 in CLEC 1-5 Attachment I are recorded. The listed Billing Operations expenses are correctly recorded in USOA 6623; Verizon uses a special study to determine the percentage of the USOA 6623 account expenses attributable to Billing Operations.

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ITEM: CLEC 2-5 Please provide the total number of Verizon access lines served by resellers for the period 2000 - 2005. Also, break out the total access lines served by resellers between residential and business lines.

REPLY: The access line information for the period 2000 – 2005 is proprietary and is being provided in the proprietary attachment to this reply in accordance with the Protective Agreement.